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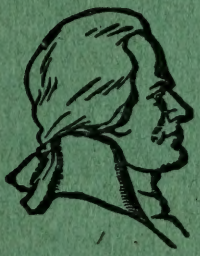
WHY BUSINESS NEEDS THE AUDITOR

By FREDERICK H. HURDMAN



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Why Business Needs the Auditor

By
FREDERICK H. HURDMAN
Certified Public Accountant

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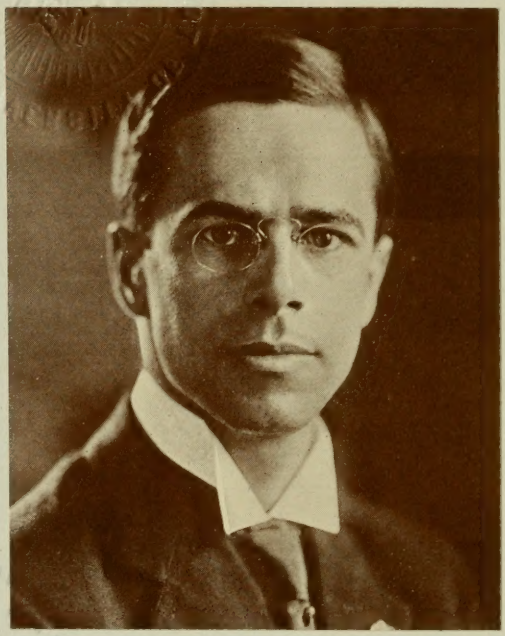

FREDERICK H. HURDMAN

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Mr. Hurdman was born in Canada and graduated in 1900 from the Ottawa Collegiate Institute. The following year he came to New York and held positions with the publishing house of D. Appleton & Co., and later with a firm of industrial engineers.

In 1907 he graduated from the New York University, School of Commerce, Accounts and Finance and joined the staff of Haskins and Sells, certified public accountants. A year later he engaged in independent practice and in this connection supervised the liquidation of several banks and trust companies after the panic of 1907.

In 1909 Mr. Hurdman became a member of the firm of Suffern and Sons, but late in the following year resumed accounting practice on his own account.

NOTE:—This Lecture, which is based upon the author's ripe experience in his special field, should be read in the light of the Modern Business Text, and should be studied as an authoritative message from the field of business activity.

Why Business Needs the Auditor

In the complexity of modern business the consultant occupies daily a larger place. In this field the advertising agent, the efficiency engineer and the auditor come to mind at once. Tho the most prominent, perhaps, these are not the only persons of specialized knowledge to whom business concerns turn for occasional guidance and counsel. The office organizer, the filing expert, the type specialist, the welfare advisor and others perform somewhat analogous services. Thus, for a fee, business concerns are able to secure the benefit of special service of highly-trained persons for consultation in handling special problems. In some lines, concerns of great magnitude can afford to employ continuously highly-paid men of special training, but lesser business concerns cannot do so.

In other lines the assistance that such advisors can give depends largely upon the fact that they represent not an inside but an outside point of view. Moreover, only thru the solution of many problems concerning many different lines of activities can these consultants acquire the breadth of view and the stores of experience which make their advice truly serviceable to business.

Specialists Must Prove Themselves Necessary

Neither the business world nor the community at large has accepted the specialist with open arms. There is a wide-spread distrust of experts, to which no doubt many who have unjustifiably assumed this designation have largely contributed. But we have only to consider the public attitude of a generation ago toward specialists in medicine to understand that in the business field specialists have established themselves in the teeth of opposition and in spite of ingrained indifference.

We have noted this emergence of the business consultant as a distinct development of modern business. It is one of the fruits of that division of labor which is the basis of our social structure. It is not the purpose of this Lecture to follow this thought into all its ramifications, but it seems desirable to point out that the services of the auditor which are to be considered here belong to a type which is becoming more and more prominent in the business world.

The Service of Accounting

Now what is the field within which the auditor works? If we would clearly understand how the services of an auditor in the inspection of books of account can aid the business man, we must have clearly in mind what the business man expects from his books. Of course the auditor is there to help him find it, but what is he looking for? What use can the business man make of his books of account?

Properly handled, properly summarized and properly interpreted the books are capable of rendering more service than many business men think.

(a) The books guide him in the conduct of his business. They show up its strength and its weakness. They show what is profitable and what is not. They point out why success has been gained in some lines of effort and has been withheld from others, and thus they point the way to business policies, expanding here, cutting down there, paring down unprofitable expenses while increasing those which result in business.

(b) The accounts are his records, his books of reference in all matters pertaining to the results of his business. When, as sometimes happens, he becomes involved in litigation, they are his evidence.

(c) The books are his means of supervising his business and the operations of his employes, his protection against fraud and theft, or at least against the continuance of fraudulent practices.

(d) They are the measure of his progress in the business world. By comparing one year's operations with another's in summarized form he is able to measure his business growth. In many instances valuable comparisons may be made with similar enterprises, thereby discovering tendencies which may be checked or developed according to their nature.

(e) They are the source from which a man's business and financial standing is ascertained. It may be of the utmost importance to him to establish the facts in dealing with others, as when he seeks credit

from a bank. It is always of importance to the business man himself to know exactly where he stands, just what the business is worth. In all his dealings with others it is very desirable that accurate information be available.

It is clear that all these are vital considerations in the conduct of business. Because they are vital, mistakes may be disastrous. Because they are vital operations, ineffectiveness in performing them leads to sluggishness. And because accounting systems operated even by concerns of considerable magnitude are sometimes inaccurate and more frequently ineffective, the auditor, whose business it is to untangle snarls and smooth out difficulties, has an important mission in the business field.

The Auditor a Business Doctor

Sometimes, and not without a tinge of derision, the auditor is spoken of as a business doctor. Tho the phrase may fall from unfriendly lips, there are in fact many striking analogies between the work of the auditor and that of the physician. If the latter be looked upon as a guardian of the physical health of the individual, the former may be regarded as the guardian of the business health of individuals, partnerships and corporations.

The average man rarely calls upon his physician unless he is sick. Something goes wrong in the works and he sends for his physician to look into the cause of the trouble. The average business concern does not think of calling in an auditor except in a case of

emergency. Again something goes wrong in the works and the auditor is sent for to find the cause of the trouble.

However, there are times when a man apparently in the best of health needs the physician's services. He may want to secure life insurance, or he may want to enter the military or naval service. He cannot do either without a medical examination of his condition, and a certificate of soundness. There are times, too, in business when a certificate of soundness is required; it may be for obtaining bank credit, it may be as a preliminary to the reorganization of a partnership or the formation of a corporation, and then an auditor's report becomes essential.

There is a tradition that the Chinese hire a doctor to keep them well, pay him so long as they remain in health and refuse payment during sickness. Many wise Occidentals are following a somewhat similar practice of going to their physicians when they are well, and the Life Extension Institute of which not a little has been heard lately is founded upon this idea. In plainer language they have their physician examine them at more or less regular intervals in order that any incipient disorders may be checked. This is just what business concerns do when they submit their affairs to a periodical audit by competent outside auditors.

The Auditor Serves a Real Need

If proper accounting systems were established, if they were operated accurately and correctly, and if

their results were faithfully and intelligently summarized, there would be no need for the auditor in his present function. But business men will immediately recognize how large an "if" is here involved. With such conditions universal, the auditor's highly specialized skill would be diverted to other services just as it is conceivable that the time may come when the chief function of the medical profession will be to prevent disease, not to cure it. Men may dream of such things, and do all they can to further their realization, but they cannot be blind to the fact that they have not yet come to pass. They must recognize that as things are, the auditor has a useful—and should have an even larger—place in the conduct of modern business.

The Auditor as Inspector

Like factory production, accounting involves an endless amount of routine. But in neither case is that fact justification or excuse for turning over the responsibility to the routine workers. In either case such a course is likely to result in disaster. The study of factory production has clearly distinguished three phases—planning, operation and inspection. Modern management is seeking more and more to differentiate these functions and to assign each to persons with special skill for the work entrusted to them rather than let the workers perform all three indiscriminately. The same functions appear in the accounting work of business, and when they are sharply differen-

tiated they find expression in the work of the accountant, the bookkeeper and the auditor. We are concerned here with functions, not with persons. That the same person may do both planning and inspecting is immaterial since we are concerned here not with the general work of the public accountant, but with the special work of the auditor. Obviously his function is the inspection of business records. Something has already been suggested in a general way as to the value of such inspection, and we may now address ourselves more specifically to the question why business needs the auditor.

When the auditor is called into a business concern for emergency service, it is because the client has had his confidence in his books shaken, or because he has been forced to such action by the lack of full confidence on the part of others. The client is dissatisfied with his records, he has the fear or the suspicion that they may be wrong. Others who force him to the audit by making it a condition of doing business are neutral. They harbor no suspicion, neither do they breathe confidence; they are simply without information. What they seek is a clean bill of health for the concern with which they are negotiating.

The disorders which make the work of the auditor necessary are dishonesty, inaccuracy and "wrong headedness." These have been named in the inverse order of their importance in actual practice, yet in the direct order of the public's comprehension of the auditor's work.

To the average man the auditor is a high-grade business detective, a man who combines the uncanny dexterity of a lightning calculator with the unerring insight of a Sherlock Holmes. Has not the student of contemporary fiction read over and over again circumstantial narratives in which the unjust trustee is forced to make restitution, or where the erring bookkeeper is placed behind the bars, or escapes such a fate by lonely exile or by suicide? No wonder then that he pictures the auditor as the Nemesis of the wrongdoer. Was ever a newspaper account of a defalcation written that there did not appear the statement to the effect that "the full extent thereof would not be known until the auditors had completed their investigation?"

How far this popular conception of the auditor caricatures his real position in the business world can be seen from the following passage from an English decision which describes an auditor as follows:

> An auditor is not bound to be a detective or to approach his work with suspicion or with a foregone conclusion that there is something wrong. He is a watch-dog, but not a bloodhound. He is justified in believing servants of the company in whom confidence is placed by the company. He is entitled to assume that they are honest and to rely upon their representations provided he takes reasonable care. If there is anything calculated to excite a suspicion he should probe it to the bottom. But in the absence of anything of that kind he is only bound to be reasonably cautious and careful.

The auditor is not a knight errant of accounting going about to redress wrongs, but he is often a keen-

eyed inquisitor whose searching brings strange facts to light. The proprietor of a large and successful restaurant in the down-town district of an Atlantic port became identified also with a hotel company and was chosen as manager of its hotel. When a few months later an auditor in accordance with custom went thru the books of the hotel company, his attention was attracted by what seemed to be unusual purchases of flour. The records of previous years were examined and a large increase noted. There was lacking any evidence of marked increase in the consumption of bread. His investigation led to the discovery of the fact that the manager had adopted the amiable habit of sending each morning to his down-town restaurant, which he operated for himself, two wagon loads of bread and rolls from the hotel bakery.

The disclosure in this case was a purely accidental result of the regular audit, and not anticipated. But at times audits are made to probe suspected dishonesty. In other cases they are made as post mortems after the harm has been done. In the former case the client wants to set his mind at rest; in the latter to know the extent of his loss and how he has been defrauded. In both cases his motive is generally to establish such a system of internal check as will make defalcation or embezzlement, if not impossible, at least extremely difficult in the future.

Uncovering Inaccuracy

Dishonesty achieves what it does not seek, the limelight of publicity, and so looms large in the popular

apprehension, yet it is not improbable that business losses from inaccuracy are greater than those from dishonesty. Less spectacular, therefore, tho more important, is the function of the auditor in uncovering inaccuracy in the accounting records. This inquiry does not concern the principles according to which the books have been kept, but whether those principles have been consistently followed. The auditor and his assistants nose into all the records. They follow every transaction. They are alert to find arithmetical errors, false postings and all the other mistakes into which a well-meaning, but routine and perhaps overworked bookkeeper, may fall. They have the advantage of reviewing instead of originating the entries. Their viewpoint is analytical. No matter how well qualified the client's accounting force may be for the routine bookkeeping of the concern, the auditor and his assistants appear in the light of super-bookkeepers to check the work. In this phase of the auditor's work, the difference between the auditor and those whose work he reviews is more one of skill than of kind.

Testing the Accounting System

For lack of a more suitable phrase it was said that the third type of disorder which the auditor's work uncovered was that due to wrong-headedness. By this is meant that the auditor inquires not only whether his client's bookkeeping system has been honestly and accurately employed, but whether the

system itself is in accord with sound accounting principles. This adjustment of the records to the needs of a correct accounting report is often a task of great delicacy. It calls for the exercise of the highest skill upon the part of the auditor, and embodies his most effective service to his client. The latter may have been discouraged, or what is more frequently the case, lulled into a state of false security by the showing of his affairs prepared by his accounting department. The audit involves a careful scrutiny of all items. Often it results in reclassification so that sometimes what had figured in the accounts as an asset appears in its true light as a liability. Moreover, it tests the accuracy of the record and often leads to a revaluation of important items. It also brings out clearly contingent and contractual liabilities which are frequently overlooked by the accountant of the concern. Oftentimes it rearranges the financial statement in order to bring out the essential characteristics of the situation in their true relation. All this helps the business man by giving him the proper information and by putting him in the right attitude and thus guiding him to a more intelligent direction of his affairs. "To see ourselves as others see us" is no less useful in business than in the other activities of life.

There can be no question that the lack of accurate information as a result of inadequate systems of accounting results in a greater loss annually than the two previous causes combined. Most of the wrecks in business would have been prevented or the consequences greatly reduced if proper systems had

been installed and the results shown conscientiously followed.

While the multiplicity of new tax laws are rendering it more and more necessary for every individual of means to maintain suitable records, the affairs of partnerships and corporations give most frequent occasion for the employment of an auditor. This is naturally the case since the business units operated by these forms of organization are as a rule larger and more important than those conducted by individual proprietors, and generally speaking the need of adequate records increases with the size of the business. But more important is the fact that in these business concerns there are a number of co-owners whose relations to the business must find exact expression in the books of account.

Any interruption of the orderly working of a partnership agreement calls for delicate accounting operations, and where third persons are concerned, the services of the professional auditor become a necessity. Instances of this character will come to mind and it may be worth while to review some of the more important situations in which this need arises.

When a Partner Dies

The death of a partner, as we all know, automatically dissolves a partnership. Under such conditions the official representative of the deceased partner's estate becomes only a co-owner, not a partner. The partnership affairs must be closed up by liquidation

or settlement. Liquidation would in most cases mean a loss of the estate as well as an injury to the surviving partners, and therefore in such conditions arrangements are usually made by which the surviving partners buy out the interest of the deceased partner.

In determining what that interest may be the impartial outside auditor plays an important part. His services are needed to protect both the interests of the estate and those of the surviving partners. His function becomes that of determining just what the partnership property is, and what is the share of each in it. The representative of the estate cannot accept the evidence of the books as they stand, since there may be undervaluation of assets. The surviving partners cannot, when put to the test, accept the evidence of their books as conclusive, lest there has been an overvaluation of the assets. They may be reluctant to admit that the partnership equity in the business was less than they had figured, but they are still more reluctant to pay to the estate of the deceased partner more than the amount properly belonging to it. In far too many instances the partnership relation has resulted in a laxity in the maintenance of accurate records and written modifications of the agreement, even tho expression thereto may have been given in the books and in statements prepared from time to time. It is obvious that under the assumed conditions conflicting interests are at play which can only be harmonized thru the intervention of a competent outside auditor.

Experience shows that the revision of the accounts more frequently reduces than increases the book value of assets. Where, therefore, a partner's interest is to be bought out, the audit, as a rule, is of chief advantage to the remaining partners. The overvaluation which the auditor frequently encounters springs in part from the prevailing optimism of business men. Pessimism may have its place but it is not constructive; the men who do things and achieve success in business effort are optimists. Too often they are carried away by their optimism and find that they have viewed their affairs in too rosy a light.

This misplaced optimism is found by the auditor in all forms of business in the analysis of receivables. Debts long past due are often carried as positive assets without any protecting reserve. Wherever credit is extended, and particularly when the nature of the business requires that credit be extended to a considerable number of individuals, there are bound to be bad debts which will never be collected. It may seem somewhat elementary to insist upon this fact, but the experience of auditors is that the principle, while recognized, is frequently disregarded in the accounts, or fails to receive adequate attention in them. The independent auditor whose examination of the books is always extremely critical finds frequent occasion to question accounts receivable which have been listed by the management as good. Advances to enterprises in which the partnership or

company are interested are almost invariably classed as good even tho the affairs of the debtor company may indicate an unhealthy concern. Hope springs eternal in the human breast and the auditor will be told that such and such a thing is bound to happen, in which event the amount due will be repaid fourfold. It is very difficult for some to admit that they have made an unwise move.

Swollen Inventories

Another frequent cause of the overvaluation which the audit discloses is the neglect of the almost equally elementary fact of depreciation. Too many merchants figure that because their goods cost them so much they must be worth that amount. Swollen merchandise inventories are the result. The fact that the longer the goods stay on the merchant's shelves the less salable they become and that in some cases they are utterly unsalable, is ignored.

I have a very vivid recollection of the grocery store in the suburbs to which I was sent as a boy to get the family's supplies. Years before that, when the suburb was farther from the city than it is today, it had been a general country store. In my boyhood days the trade had grown but had narrowed to the grocery business. But the back of the store was filled with rusty hardware and other relics of a former trade, a veritable junk shop that was a delight to the youngsters in the neighborhood. Sometimes the old man who kept the store would hold up some unfamiliar article, and say: "Boys, do you know what that

is?" and then launch into an explanation of some obsolete appliance. The old man was reputed of considerable wealth, and he drew much comfort from the contemplation of his balance sheet. When he died his sons reaped only disappointment. The inventory value of the stock shrank amazingly on an appraisal by experts.

Another instance comes to mind in which the eastern representative of a western house succeeded in embezzling between fifty and sixty thousand dollars, during all of which time he won the praises of his employers on the excellent operating results shown. His method was to boost the inventories enough to absorb his peculations and show a book profit, thereby throwing sand in the eyes of the officials at the home office. The business was that of dismantling plants, the equipment being overhauled and resold. By adding a little additional cost on each machine that yielded a good profit the amounts stolen were easily covered up. This method led to the rather trite remark that all one had to do in order to make money (on paper) was to load a machine on a truck and drive around the plant all day.

Depreciation Often Neglected

In manufacturing businesses it is the plant and equipment which depreciates in value. How often do we hear business men say, "I have had that machine in active operation for four years and it is as good as new." Of course that is not the fact, tho in times

past it was often hard to convince the business man of the contrary. The auditor does not have to convince himself that depreciation takes place, even tho his client may have difficulty in understanding it. The auditor's chief difficulty is to determine the amount of the depreciation properly chargeable against the assets in question, and his inquiry is whether the reserves, when they have been established, are adequate or excessive. He has no hard and fast mathematical rule to guide him. He must study particularly each type of building and machinery. He must take into account the length of time during which they can be used, and must reckon not only with their durability, but also with the fact that they may be displaced by new contrivances and new processes.

Here is a point where the critical attitude of the auditor and the natural optimism of his client come into conflict, and where the auditor may need all the arts of diplomacy. There is perhaps no subject upon which the auditor needs to be more thoroly grounded than upon depreciation and the cognate matters of repairs and renewals. He must not only know exactly what he is doing, but he must be able to explain it so clearly as to satisfy men who have given the matter little attention and whose attitude is often hostile. Mr. Hurley of the Shipping Board while a member of the Federal Trade Commission did much toward spreading the gospel of more liberal depreciation, and pointed out the ridiculously low rate of depreciation to plant investment prevalent in many

statements analyzed by the Commission's accountants.

The Income Tax

Income tax legislation has shifted the problem of depreciation so far as the auditor is concerned. He must no longer plead with the business man to make proper allowances for it. When these allowances appeared only as an accounting device which diminished profits, the man of business was reluctant to admit their necessity. Now that they have come to be a means of lightening the burden of taxation, business men are eager to make these depreciation allowances as large as possible. The auditor has to contend now with a tendency not to minimize but to exaggerate depreciation.

But this tendency cannot be carried too far without danger. Concerns which have prided themselves in the past on their liberal allowances for depreciation, are caught in the net of the Excess Profits Tax. Many of them have vainly tried to increase their plant investment in order that the percentage of profits earned may not subject them to heavy taxation.

All in all the tax legislation has been a boon to the auditor, and a powerful stimulus to better accounting methods. It has taught business concerns the value of correct accounting methods. It has made it necessary for them in many cases to call in the aid of the professional auditor to prepare their statements for taxation purposes. Again it is to be noted that the more searching taxation of today presupposes that

proper accounts have been kept, and in the official returns for individuals the question is asked specifically whether the accounts have been audited and if so by whom.

The Share of the Partner

In the adjustment of partnership affairs growing out of the death of a partner, there are two steps, (1) the determination of the net worth of the partnership which we have considered, and (2) the determination of the share of each partner in it. This is not always the simple matter that it would seem, particularly when the partnership agreement has been loosely drawn. So important are these matters that business men would often spare the auditor and themselves an endless deal of trouble if, in forming their partnership agreements, they would seek the advice not only of a lawyer but of a certified public accountant. The auditor in actual practice is concerned with things as they are, not as they might be, and often finds conflicting evidence as to the partnership agreement which must be weighed and sifted.

The occasions which call for an emergency audit may be quite varied. We have considered the case when a partner dies. Similar conditions might arise when a partner retired for any cause, or when the partners decided to organize as a corporation, or when they entertained a proposal to sell their business to a corporation or other purchaser, or when either a partnership or a corporation sought to borrow money from a bank, or a corporation sought the financial aid of underwriters to float a loan.

Relation Between the Parts of a Business

We have seen how emergencies arise in partnerships and corporations which call for a fixing of the exact equities of the co-owners. Somewhat analogous situations arise when a business is composed of different parts, and it is necessary to determine the relations between them.

Indeed the proper supervision over dispersed activities implies a system of records. But this system must be carefully prepared to do justice to all concerned. In a western city a man whom we will call Garretson started in life as a butcher, but in time became the proprietor of a chain of meat markets. In each of them was a manager with considerable latitude in the making of purchases. Garretson thought he had a fine accounting system because each week he required the managers to send him a summary of their purchases and sales.

He would weigh the sales against the purchases and measure the profits by the difference. A friend finally persuaded him that an auditor might help him. Not without a great deal of difficulty did the auditor persuade Garretson that the inventory had a great deal to do with the profits. He found in fact that some of the managers were quite aware of the old man's mental processes, and were able to maintain a good showing by juggling with the inventory, increasing it and decreasing it, holding out bills when necessary to produce a favorable impression. It seems almost incredible that a successful business

man should have been so ignorant of accounting processes, and should have needed the services of an auditor in so simple a matter, but the incident related actually occurred.

This incident illustrates in a kindergarten sort of way the need of accurate accounting between the different branches of business. An accountant could cite numberless instances where subsidiary companies had been bled, where departments had been favored or had had a raw deal thru a juggling of the accounts, sometimes the result of ignorance, sometimes of design.

The auditor is an important aid also in the internal control of a business. This is especially true where officials of the company receive, in addition to their stated compensation, premiums or commissions on the amount of business which is done. Under such conditions the temptation to resort to devious methods of bookkeeping for the purpose of securing a larger premium is often too strong to be resisted.

The Auditor and His Client

Now it goes without saying that while the attitude of the auditor is that of inflexible impartiality under all circumstances, the same cannot be said of his clients. If they are buyers they have one interest in the result of the audit; if they are sellers they have another. While this should not affect the spirit in which the auditor works, it may materially affect the degree of cooperation and assistance which he re-

ceives. These are factors with which the auditor has to reckon.

This does not mean that the auditor must wholly disregard the purpose of the audit. While this should not influence him in his investigation of the facts, it may very properly be considered in the presentation of the facts which have been ascertained. Thus if the statement is to be presented to a bank for the purpose of securing a bank credit, it is perfectly proper to so group the facts that they will make the best impression, provided always that the established rules relative to the arrangement of assets and liabilities are adhered to. To do otherwise would be a neglect of his client's interests. While the auditor like the witness on the stand is pledged to tell the truth, the whole truth and nothing but the truth, he is not pledged to do so in a disagreeable way.

It seems hardly necessary to warn the auditor to guard closely the information he has gained concerning his clients' affairs. He may not disclose this information without permission to anyone except his clients. He will also have to guard against dual relationships where he may experience difficulty in suggesting a line of procedure which will be consistent for both clients. In other words, it might be difficult to suggest a plan of reorganization for a client who was also creditor of another client.

Incorporating Companies

Perhaps a word may be said at this point on the rôle which the auditor plays when existing businesses

are transformed into corporations. If in such a case the owners of the business are the incorporators, and if they have no need to appeal to the general public for cash subscriptions, the audit is frequently dispensed with. It is notorious that under such circumstances stock issues often have no relation to the investment of assets. This may do no harm as long as the corporation is a close one, but may work an injury when the holdings are scattered. The state has it in its power to avoid these consequences. It would certainly contribute to the feeling of security on the part of the public if the law provided that nothing other than cash could be accepted as payment for stock, except with permission of the state authorities on the report of an independent auditor approved by the state. As the auditing profession becomes better and better established, the investing public is more and more demanding a professional audit as a preliminary to the issue of corporate securities.

The Periodical Audit

Some professional accountants may think that in emphasizing thus far the work of the auditor in special occasions, I have put the cart before the horse; that his more important function is the regular and systematic audit of the books of business concerns. It may be true that an ounce of prevention is worth a pound of cure, but historically the cure came first.

The object of a periodical audit is obviously the same as that of the occasional audit, to give assurance that the books are both accurately and effectively

kept. A periodical survey of the books by a competent and disinterested outsider is becoming more and more a standard practice of business concerns.

It is based on a realization of the cumulative danger of fraud, inaccuracy and error. Neglect or vicious policies long persisted in, bring business face to face with ruin. If they are discovered when they have run but a short time, blunders may be corrected with little loss, and defalcations nipped in their incipient stages.

The periodical audit has great value because it enables the business man to realize more completely the purposes for which books are kept. The accurate record of the outside expert focuses his attention more forcibly than would his own examination upon the essential results of his business operations.

(a) With this record before him he can form his judgment with greater positiveness and direct his business with greater confidence.

(b) He has thru the accountants' attestation the verification of his business records. Their value as evidence is enhanced by this confirmation.

(c) The periodical audit assures him that there are no loose ends, no leaks in his business. It protects him from the possible misconduct of his employes.

(d) The auditor's report gives him a sure measure of the progress which he has made. He has the agreeable confidence that when he compares the record of his year's operations with other years he stands upon firm ground, from which he can draw unshaken conclusions.

(e) The auditor's verification of his balance sheet is the certificate both to the world and himself of his business and financial standing. It is a certificate which will not be questioned and which he can use with confidence when it is necessary to bring evidence to others of his financial status. It is, moreover, unimpeachable evidence to himself of what his financial standing really is.

Thus we may look upon the periodical audit and certificate as the crowning point of the accounting records, which makes them a sure guide and unfolds their greatest usefulness to the man of business.

What Business Requires of the Auditor

The demonstration why business needs the auditor is, I think, complete. But we have not inquired what business requires of the auditor.

It may be well to point out that to meet the needs of modern business the auditor must be not a mere wizard with figures, but a man of broad training and a clear understanding of business principles. His work may be highly technical, but it is related at all points to the broader aspects of business affairs. If he can judge them intelligently, and guide his actions accordingly, he can render an invaluable service. He must possess an abundance of tact. The old adage that you can catch more flies with molasses than you can with vinegar is exemplified in the work of an auditor. The auditor should be prepared to bend over backward in maintaining the integrity of his relationship with his client. He must possess an

analytical and constructive mind if he is to touch more than the surface conditions underlying any but the simplest business. If he expects to attain an important position as an auditor he must also be guided by the ethics of his profession.

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